KatieSoft Inc.

May 1998

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The information contained herein constitutes a business plan and contemplates neither a sale nor an offer to sell securities.

Control ID: 10019

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KatieSoft

Company Direction

In May 1997, KatieSoft Inc. ("KSI") was founded to take advantage of the explosive growth of the Internet software market. In 1998, KSI established a unique position in the browser market. As the crush to port new and existing applications, services and products to the Internet continues, the demand for more intelligent browser software grows. KSI is seeking seed financing to leverage its unique products and market position.

Company Overview
Background

For years, people have used the dominant Internet browser offerings from Netscape ("NS") and Microsoft ("MS"). Internet access speed and the technological competence of the average "surfer" have increased rapidly, along with the actual number of Internet users. Prior to the introduction of KSI's Picture in Picture ("PiP") software, Internet users had to launch multiple instances of their browser to view more than one web site at a time. Launching more than one browser is a considerably messy and inefficient process that most Internet users avoid. A growing number of common Internet user scenarios completely favor using multiple instances, from the casual e-shopper comparing goods on the slowest rural connection, to the researcher or broker on the speediest digital line looking to compare data side by side or instantly expand numerous page results.

The constitution of the Internet software industry, as it currently exists, affords KSI the opportunity to define and dominate a software market segment that is basically in its inception. With industry leaders concentrating on ensuring that basic browsing software is on every new computer, and the rapid growth of web resident applications, the potential market for enhanced browsers and improvements grows with each PC and peripheral shipped.

KSI is a registered Delaware corporation.

KSI is located at 777 Florida Street #302, San Francisco, CA, USA, 94110.

As of May 1998, KSI has distributed more than 120,000 copies of software worldwide.

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Objectives

Based on KSI's projected revenues for the current fiscal year and KSI's projected annual growth, KSI will be in a suitable position for expansion within six months. As a result of this expansion, KSI expects to establish a prominent market by the end of this six-month time frame.

Capital Requirements

In order to take advantage of the opportunities described in this business plan, and based on sound business assumptions, KSI's first seed financing requirement is for $ 400,000.

KSI's officers have developed a plan to intensify and accelerate its marketing and sales activities, product development, distribution, and customer service. To implement this plan, KSI will require an estimated total of $400,000 in financing over the next six months. This capital is allocated in the following manner:

Research and Development	$72,000	(18%)
Selling, General, and Administrative	$318,000	(82%)

Please refer to the section titled, "Use of Funds" for a detailed breakdown.

Management Team and Board Members

Brian Duperrouzel, Founder, Chairman and Chief Executive Officer

Duperrouzel's current duties include software design and engineering, fund raising, and business development. Prior to founding KatieSoft, Duperrouzel served as a software developer for FRx Software, Manpower Inc., and the San Jose Arena Management LLP. In addition to the Scroll and PiP programs, Duperrouzel designed and programmed a variety of payroll, invoicing, and accounting applications for the Windows platform. Mr. Duperrouzel has over 15 years experience with personal computers and software. MA Financial Economics, BS Economics, State University of New York at Albany

Angus Chassels, Founder, Board Member and Chief Operating Officer

Chassels' current duties include developing the internal structure and public presence of KatieSoft, product development and fund raising. Prior to founding KatieSoft, Mr. Chassels worked in the executive offices of Uhlich Color Company in Tucson, Arizona. At Uhlich, Mr. Chassels was a key liaison for the export department to customers in over 25 countries. Mr. Chassels was responsible for international shipping and banking documentation including NAFTA compliance and irrevocable L/C's. In addition, Mr. Chassels conceived and developed internal databases and oversaw the generation of internal and confidential financial reports for the CEO and CFO. Chassels' has over 15 years experience with personal computers and software. BA Fine Arts, Bard College

Solomon Wong, Acting Chief Financial Officer

Mr. Wong is currently Chief Financial Officer of Acme Building Maintenance Co. Inc. At Acme, Mr. Wong is responsible for Finance/Accounting, Information System/Communication, Human Resources, and is a member of the strategic planning team. Prior to Acme, Mr. Wong spent more than seven years at Hewlett Packard Company. At HP, Mr. Wong held many positions, from Cost/Pricing Analyst, Financial Planning & Reporting Analyst, Business Support, Marketing and R&D, to Regional Contract Negotiation Management. Other key projects at HP included SAP implementation, HP UNIX release 10.0, Outsource Software distribution center, World Class Manufacturing process, Royalty audit program, and ISO 9000. Mr. Wong received his BS in Finance at San Jose State University and MBA in Marketing at Golden Gate University.

Additionally, our outside management advisors provide tremendous support and creativity for management decisions.

Jim Goddard, Vice President and General Manager, San Jose Arena

Goddard oversees all facets of the Arena's operation, including ticket operations, booking, guest services , food services, engineering and facility technical operations. He is the point person for all Arena discussions between San Jose Arena Management and the city of San Jose. Goddard also implements and follows through with all building improvements, from the design phase to final construction and sign-off.

Allan Schneider, Principal, AMS

Mr. Schneider is responsible for developing, supporting and delivering client relationships and engagements in the financial community for AMS. He has over 30 years of experience in the data processing industry, technical management, product support and development. His expertise spans large systems (IMS and CICS), Internet, client server, retail banking applications, outsourcing, software, systems engineering, product management and development. At IBM, Mr. Schneider managed over 125 Systems Engineers in support of the New York Wall Street and Banking communities. In addition Mr. Schneider has experience in the process, distribution and semi-conductor manufacturing industries.

Legal Representation

KSI realizes the essential value of vigorous intellectual property protection. KSI has retained the services of Preston Gates and Ellis LLP, a prominent Seattle based law firm with offices in San Francisco. PG&E has represented some of the world's foremost technology companies for over 20 years.

Product Strategy: KatieSoft Scroll

What is Scroll? Scroll is KSI's next generation of web browsing software, and will replace the KatieSoft PiP product within two months. Scroll is a cutting edge web browser with revolutionary functionality and unique features. Scroll represents a significant software advance towards an intelligent web based infrastructure.

What does it do? Scroll allows users to surf and manage multiple web pages simultaneously within one container (program). In addition, Scroll features proprietary technologies that give the user unparalleled control over web content. Scroll streamlines information exchange between applications, unlocks a new generation of browser based software and hardware and fosters a new dynamic relationship between web based content and the end user.

Why is it unique? For the vast majority of users, Scroll will represent a completely new and easier way to browse the web. With full traditional functionality and Scroll's advanced features, users will be able to take advantage of the Internet in new ways by eliminating technology bottlenecks, and increasing overall efficiency. Scroll uses proprietary technology that completely simplifies the nightmarish task of managing a desktop full of browsers.

Why is it better to use Scroll?

- Scroll is the only software that concretely unifies a diverse range of web based applications and information sources, creating in effect, a web based OS.
- The best way to browse is simultaneously, it saves time and money and it makes the web more exciting to use. *Some Scroll usage scenarios follow this section.*
- Scroll saves valuable screen "real estate". Scroll has significantly increased functionality, yet uses much less screen area for operator input than either MS or NS.
- Scroll is ergonomically superior, with layout and GUI innovations based on extensive customer feedback and beta testers involved in the Internet in many job capacities and functions.
- Users can intuitively resize the web content they are viewing to best suit individual sites.
- Supports all cutting edge technologies and plugins such as ActiveX, Java, Shockwave, Realplayer etc., and modern web standards such as Cascading Style Sheets and DHTML.
- Allows the user to rapidly tunnel through pages and hyperlinks without losing their initial focus.
- Scroll uses 10-40 percent less system memory than MS/NS when controlling multiple sites.

- The movement to web based (Inter/intra/extranet) services and e-commerce in corporate and consumer culture is inexorable and massive, and requires more intelligent browsing software than is currently available.
- Scroll is extremely stable and highly integrated into Win95, Win98, WinNT

Unique Features:

- View and control 1-4 web sites simultaneously.
- S!dot technology. One of the highlights of Scroll. Users can grab a center button and resize each open window in real time, to the exact dimensions of web content. Double clicking the S!dot automatically re-centers it.
- Instantly maximize and minimize each site.
- Each Scroll window is topped by traditional browser controls.
- Keyboard shortcuts to all primary Scroll controls
- Hyperlinks can be dragged and dropped between Scroll windows.
- Status lights indicate page load.
- Double click on S!dot to auto re-center.
- Auto-refresh 1-4 sites based on user set up.
- Control all open pages with buttons for: All Stop, All Refresh, All Home, All Search
- Scroll has universal access to extant favorites and offers ScrollMarks, a fast, efficient marking system that pre-loads favorite URLs into the address bar in each Scroll window.
- One click access to Internet Options including temp file controls, mail client selection, content ratings and security/cookies.
- ScrollShow: Use ScrollMarks or user programmed URLs to view sites in a slide show fashion, from local or web based pages.
- Scroll security. Scroll has the same security integrity and options as MS/NS. Scroll is perfectly secure for online credit transactions and current online trading specifications.

Future versions of Scroll:

Versions of Scroll in development include the following features:
- Thread technology: open and close multiple threads within the application, saving bandwidth and system memory usage.
- 128bit encryption: supplied by Microsoft. US & CANADA ONLY
- Optional email client: custom fit access for an email client or web based provider.
- Multiple html rendering engines: view pages through the "eyes" of MS or NS in any combination.

Scroll usage scenarios/applications:

Everything from web based email services, groceries, bookstores and brokers compete for the attention of web users with voracious appetites for technology, information and commerce. Skilled experts have been replaced by skilled masses capable of dealing with "more web" in a vast variety of scenarios and applications. The majority of users remain unable to exploit the opportunities and efficiencies of the web or their Intranet due to the simplicity and limitations of their browser. Scroll is much more sophisticated than the leading offerings and sacrifices none of the functionality or integrity users are accustomed to.

Multiple instances:

MS/NS: User launches 2-4 instances of their browser. Each browser must be resized on the desktop. In addition, every browser instance opened will navigate to the same home page, requiring the user to re-point each browser individually to new start up pages or content. (Netscape cannot otherwise handle simultaneous multiple page requests.) Resizing of each browser is limited in scope and time consuming to accomplish. The OS taskbar fills to reflect each new instance. **Time required:** Connecting to Internet and 3-10 minutes depending on number of sessions.

Scroll: User clicks on Scroll Icon. Scroll opens and automatically opens 4 home sites, showing 1-4 on screen as designated by the user. A single control instantly resizes all sites as required. Hyperlinks can be dragged and dropped. The OS taskbar shows 1 application. **Time required:** Connecting to the Internet.

Web Developers.

- Preview web pages in development and live web pages simultaneously.
- Scroll views pages identically to MS or NS.
- Auto refresh pages from PC or the web.
- Tunnel through pages without losing initial page focus
- Preview web banners and graphics outside of pages in development
- Test CGI scripting without losing initial page focus

Research/Searches

- Expand query results to other pages by dragging hyperlinks.
- Tunnel through sites while maintaining original sites.
- Compare data easily

E-commerce

- Allows user to have stock tickers, and multiple windows open simultaneously.
- Saves money on additional PC's and telephony access.
- 128 bit encryption is available for Scroll.
- Scroll is the perfect tool for online shopping.

Basic Corporate Usage:

- Easily Installed and Supported.
- Requires minimal training.
- Saves labor time connecting to the Internet and organizing multiple browsers and using multiple browsers. (The average corporate user who uses multiple instances can save 18-60 hours a year labor. The researcher/trader/multimedia/pr corporate user who uses multiple instances can save 45-240 hours a year.)
- Optimizes web usage, which reduces bandwidth load, connection time and charges.
- Allows remote employees to easily compare and manage information simultaneously
- Maximizes the usability of new browser based hardware, from office security cameras to HP printers.
- Speeds in house web/network development and maintenance.
- Adds value to any extant browser based Intra/extranet.
- Adds value to workgroups, Internet calendar and scheduling applications.
- Creates the ability to do comprehensive web based presentations (on and offline materials)
- Adds a new dimension of interactivity and accessibility to online training.

<u>Scroll: Product Background</u>

Test marketing was conducted through the successful release of KatieSoft's Picture in Picture products from 9/1/97-3/15/98.

Picture in Picture

KSI currently offers one product: Picture in Picture ("PiP") for Microsoft's Internet Explorer. PiP is a software program with unique features and technology. As of May 1998, KSI's product has been distributed worldwide to more than 120,000 PC users/owners.

On February 15, 1998 PiP 2.5 was released as a premiere on CNET's DOWNLOAD.COM. Sponsors for this product launch included: CNET, CBS Sportsline and MSNBC

On February 26, 1998 PiP 2.5 (for IE 3.x) was released as a 48 hour exclusive on the Launch Pad at HOTFILES.COM, a Ziff-Davis site. KSI received extensive feature coverage. Sponsors for this product launch included: CBS Sportsline and MSNBC.

PiP has already received very favorable initial recognition in the marketplace and from editorial reviews. Some of the recent reviews include:

> **Microsoft Corporation** - March 5, 1998 -"Picture in Picture is a great example of cutting edge component based technology," adds Tod Nielsen, general manager of Developer Relations for Microsoft . "PiP leverages the proven strength of Internet Explorer's HTML rendering engine, and enables advanced customization for serious web users."
>
> **5 out of 5 Stars—ZDNet (A Ziff-Davis Company)** Both versions of KatieSoft's PiP product received 5 stars, the highest rating. Ziff-Davis is the world's leading publisher of technical magazines. Some of their print titles include:
> - PC Magazine
> - YAHOO! Internet Life
>
> **Editors Pick—DOWNLOAD.COM (CNET)** CNET's DOWNLOAD.COM is the world's most popular web site for downloading software. In addition to DOWNLOAD.COM, PiP has been featured on CNET's other sites. They include:
>
> - SHAREWARE.COM
> - BROWSERS.COM
> - ACTIVEX.COM

Cool Tool of the Day (Andover Network) Cool Tool is one of the most popular software review sites on the web. Some of the quotes included: "We were ecstatic.", "Our prayers were answered! ". Other Andover Sites:

- The Andover News Network
- Dave Central

Five out of Five – Practical Internet Magazine (Paragon Press, UK) Paragon Publishing is the UK's largest independent publisher of video games magazines and the first to publish a newsstand Internet title. Paragon publications include:

- Practical Internet
- Windows Guide

Hot File of the Day 12/24/97 – MSNBC (Microsoft, NBC)

For the latest in KatieSoft press: http://www.katiesoft.com/pressroom.htm

Some pre-emptive answers to common product questions:

How does bandwidth affect KatieSoft products?

Bandwidth is the ultimate constraint on any web surfing. It is KSI's belief that the Internet and access to it will continue to be pervasive parts of everyday life. There is an obvious and intense race to produce broader and cheaper bandwidth through copper, fiber, cable and space itself. As the overall web using populace evolves towards access speeds approaching those once reserved (by economics) for major corporations, Scroll will gain significant additional value.

How does PC power affect the performance of KatieSoft products?

All software products are limited as to how they are displayed and function according to the power and capabilities of the processor, graphics card, and monitor. PC market data clearly indicates that more powerful machines and upgrades are available at increasingly cheaper prices. Although Scroll can run on any modern PC (Windows compliant), as PCs become more powerful, Scroll becomes more efficient, and therefore, more valuable.

Why a maximum of 4 sites/pages in Scroll?

Based on our market research, of those users controlling more than 1 web site at a time, very few ever exceeded 4 sites open simultaneously. Four sites fit logically in quarters on the screen. In addition, the system and bandwidth resources required to have more than 6 browsers open exceeds the comfortable limits of most PCs. Launching 2 sessions of Scroll would remain significantly more efficient than launching 8 instances of MS or NS, which would be virtually unmanageable and of highly questionable efficacy.

Is Scroll some sort of browser accelerator?

No. Browser accelerators are "crutch" products that attempt to speed up the web browsing process by pre-caching every available link from a web page on your PC. Browser accelerators are bandwidth hogs that slow down net access and burden your PC. Browser accelerators have none of the features of Scroll.

Pricing Analysis

Retail Sales

KSI plans to price its retail version of Scroll between $13.95 - $19.95. This price level is 40% lower than most web browsing tools and utilities. Although KSI anticipates that most of Scroll's retail distribution will come from KSI's web site, KSI plans to manufacture Scroll on compact disc for distribution in major software retail chains. The compact disc version of Scroll will be priced between $19.95 - $29.95. These pricing levels should cover manufacturing and distribution costs.

OEM Pricing

KSI has initially priced the standard edition of Scroll to OEM's at the price of $0.50 per copy. This price should be attractive to OEM's who are looking to include quality software titles as a value add to potential video monitor, display card, modem and computer buyers. Certain OEM deals may provide the OEM with rights to Scroll's start up content.

Corporate Sales

KSI will give corporations pricing discounts for Scroll if purchased in large volumes. Discount pricing will be negotiated for each individual customer.

Advertising Pricing

A significant portion of Scroll's revenue model will be based on the sale of home page real estate. Most Internet content providers ("ICP") rely on banner advertisement, a relatively cheap yet inefficient way to transfer users to their sites. KSI's pricing analysis is based on these banner advertisement rates.

Standard Banner Advertisement Pricing

Banner Size in Pixels 468x60
Standard Banner Rate: $10 - $30 per 1000 banners
Average Click Through Rate: .5% - 3%
Cost Per Transfer: $0.5 to $1.50

Home Page Pricing

Top Left Window $300 per 1000 Site Deliveries or $0.30 per Home Page
Top Right Window $250 per 1000 Site Deliveries or $0.25 per Home Page
Bottom Left Window $200 per 1000 Site Deliveries or $0.20 per Home Page
Bottom Right Window $150 per 1000 Site Deliveries or $0.15 per Home Page

Total Revenue per 1000 Scroll Browsers: $900

Since Scroll displays the ICP's site, and not just an advertisement for the site, the ICP's price is subsidized if they generate their advertisement revenue from page views. Unlike banner advertisement, which has a finite inventory, Scroll will continue to display the ICP's site, as long as the user does not change their configuration settings. This causes the ICP's real cost per site impression to fall each time the browser is opened. The ICP also saves money because they do not have to pay a creative for the banner design.

In addition to the home page real estate, there are many other less valuable bookmarks that can be sold to Internet content providers. For the purpose of this business plan we are assuming that home page real estate will be the only inventory sold.

Research and Development

Scroll is currently being beta tested by KSI's customer base. Aside from some minor aesthetic changes, KSI anticipates a July 8, 1998 release date for both the Microsoft and Netscape Internet platforms.

In response to the demonstrated needs of KSI's market, new products being developed include enhanced versions of KatieSoft Scroll and new products to streamline the simultaneous management of multiple desktop applications for the Windows platform. These products are based on the relative user ergonomics of our Scroll product. (Project: Unified Desktop)

KSI anticipates that Scroll 2.0 and Project Unified Desktop will be in its beta cycle by January 1999.

KSI actively gathers preference data from its web site, user base, beta testers and external research mechanisms. Most recently, KatieSoft conducted an online survey on video card settings in conjunction with the Ziff-Davis web site Hotfiles.com.

With the funding considered, KSI expects to reap the immediate R&D benefits of additional staff, PCs and testing capabilities.

Intellectual Property

KSI has retained the services of Preston Gates and Ellis LLP., to handle all of its Intellectual Property issues. KSI has filed for federal trademark protection for the name, "KatieSoft", in addition to the design of KSI's logo, and the Scroll product name. All of KSI's programs are protected by United States and International copyright laws. KSI is vigorously investigating patent protection for its proprietary technologies.

Production and Delivery

The key components of KSI's production process are programmers, personal computers (PCs) and software. To handle increased development requirements and additional planned staff, KSI's current PCs need upgrading and additional PCs purchased.

As of May 1998, KSI's sole product delivery vehicle has been the Internet. This has the distinct advantage of instantly placing KSI in a global marketplace that never closes. KSI has agreements with several major publishers, allowing them to distribute the shareware version of KSI's PiP product on compact discs that accompany their magazines and journals in 1998.

KatieSoft is exploring the costs of burning Scroll onto compact discs (2,500-10,000 units) for order fulfillment, trade show sales, retail sales and complimentary press kits.

Market Analysis

Market Definition

In addition to the Internet software market, KSI anticipates generating significant revenue from the online advertising market. This dual revenue model of software sales and advertising sales makes KSI's market unique. The following market definitions include the Internet software market and the online advertising market:

According to International Data Corp., U.S. Internet Revenue in 1997 reached $8.5B and is expected to grow to $155B by the year 2001. Dataquest Inc., a San Jose based research firm, expects the Internet software and services market will reach $32.2 billion in revenue by the year 2001. Piper Jaffray Inc., reports that 1997 revenue from US financial services software (Internet Banking Software, Online Trading Software, Financial Management Software) reached $1.2B and expects to reach $4.4B in 2001.

The Internet Advertising Bureau via its industry-leading "Advertising Revenue Reporting Program" announced on April 6, 1998 that $906.5 million was spent on online advertising in 1997. According to the report, conducted by Coopers & Lybrand, advertising revenues continued their upward trend, with fourth-quarter revenue totaling 48 percent over the third quarter. The 1997 fourth quarter revenue figure marks, the eighth record-setting quarter in a row. Total revenues in the first quarter of 1997 were $129.5 million, the second quarter posted $214.4 million, with the third quarter reporting revenue of $227.1 million.

Forrester Research reported in April 1998 that by 2002, online advertising direct market revenues will exceed $8B, with more than 70% of ad agencies spending more than $1M a year.

Marketing Plan

<u>*Retail Sales and Corporate Sales*</u>

KSI anticipates retail revenue of $1.3M for the year ending July 30, 1999. The typical customer for KSI's product is an average Internet user with a modem personal computer. KSI's customer base is composed of Internet users comfortable enough to download and install software on their machine.

KSI's corporate target market includes the more than 10 millions active users of Microsoft Internet Explorer 4 and Netscape Communicator 4. These users typically have higher access speeds, modern PCs and monitors, and are the most likely to be aware of the inherent value of browsing simultaneously.

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Responses from customers indicate that KSI's product is enjoying an excellent reputation and KSI fully expects this trend to continue. Inquiries from prospective customers suggest that there is considerable demand for it. Relationships with leading software distribution sites on the Internet substantiate the fitness of KSI for considerable growth and accomplishment in KSI's market segment.

KSI's marketing strategy is to enhance, promote and support the fact that KSI's product is the most efficient and integrated browser available for the Windows platform.

Special Market Characteristics

The Internet software market commonly uses a "try before you buy" sales strategy. This strategy effectively communicates the possibilities and advantages of KSI's product, and is useful in reaching new customers and press. KSI has used this market characteristic to KSI's advantage, and has integrated it into KSI's Pricing and Profitability analysis.

Domain Demographics of PiP Users   Registered Users Demographics

        34% Network (.net addresses)   88% Male
        24% US Commercial (.com addresses)   12% Female
        17% Unknown
        4% Brazil
        4% Canada
        2% US Educational
        15% from 25 Countries with 1% or less

KSI's retail customers use PiP for the following uses:

- General web surfing and Internet/intranet usage.
- Research activities including daily sweeps and site comparisons.
- Online securities trading and research
- Web development and maintenance

Internet Content Provider's ("ICP's")

KSI anticipates advertising revenue of $2 M for the year ending July 30, 1999. Scroll will be the first browser introduced to the Internet that uses third party web sites as its default content. By selling Scroll's home page real estate, ICP's are given a new medium to advertise their content.

KSI plans to target ICP's that use banner advertisement as a means to attract Internet users to their site. Typically, these ICP's offer goods or services from their Internet site and advertise on the major search engines, ISP's, and News sites.

OEM's

KSI expects to generate $3M in revenue from OEM's in the year ending July 30, 1999. Scroll will be attractive to OEM's because it will help them reclaim the desktop from their current software partners. Because OEM's can not currently control the start up content from the common browser offerings, they are locked out of making content arrangements with the ICP's. By allowing the OEM to choose their own ICP partners, they can share the same revenue streams of highly valued companies like Yahoo!.

Competition

Currently, there are no companies that publish software that mirrors the functionality of KSI's products. The companies that produce Internet browsing software (Microsoft, Netscape, AOL, Sun etc.) all configure their software to default to their company's web sites, and not to the content of a third party as KSI plans to do. However, since KSI will be participating in dual markets, software and online advertising, KSI views the market leaders in these respective markets as its chief competitors.

Software

Microsoft, Netscape, AOL, and Sun are KSI's biggest potential software competitors. Although these companies have not demonstrated intentions to compete with KSI's Scroll product, it must be noted that market entry by these companies could significantly limit KSI's software market. Even if these companies added similar functionality to their browsing products, it is unlikely that their browsers would feature third party start page content.

Opera Browser, made by Opera Software, is a small Norwegian based software company that produces Internet browsing software. Currently, Opera does not support the Java programming language, ActiveX, or CSS, and is more of a competitor to the general browser market held by Microsoft and Netscape. Unlike Scroll, which leverages the Internet technologies developed by Microsoft and Netscape, Opera's product is based on their own proprietary technology.

Advertising Competitors

KSI views the leading online publishers as its chief competitors for advertising revenue. These publishers (Yahoo, Netscape, Infoseek, CNET, Lycos, ZDNet, Excite, CMPnet, MSN, etc.) main strengths are in its large audiences and its free content. Some of these companies distribute customized versions of Microsoft's Internet Explorer in an attempt to drive home page traffic back to their site. With the exception of Netscape and MSN, none of these companies produce their own web browsing software with unique functionality. KSI plans to target the aforementioned ICP's advertisers as its initial clients.

Limitations

The chief limitations that KSI faces are an inability to get new products to market quickly, lack of marketing and public relations exposure, and insufficient staff. Therefore, the primary limitation on KSI is a lack of capital and cash flow.

Distribution Channels

KSI's marketing strategy incorporates plans to sell KSI's product through several channels. KSI's primary distribution channel is the Internet. KSI's marketing strategy includes Original Equipment Manufacturers (OEMs) and retail distribution.

KSI's mix of distribution channels will give us the advantage of saturating a market that may purchase through one or more channels, but is influenced primarily through the same public relations effort.

A partial list of KSI's major current distributors includes:

> DOWNLOAD.COM (CNET)
> ZDNet & HOTFILES.COM (Ziff-Davis Publishing)

Advertising and Promotion

KSI's overall advertising and promotional objectives are to position KSI as the leader in the market. It must be noted that the success of PiP came with nothing but critical editorial acclaim for advertising. KSI is currently testing banner advertising through barter agreements with MSNBC and CBS Sportsline. KSI looks forward to being able to utilize proven advertising routes to heighten consumer awareness of KSI's products.

KSI will develop an advertising campaign built around Scrolls' innovations, performance and ease of integration. Additionally, KSI will develop a consistent reach and frequency throughout the year. In addition to standard advertising practices, KSI will gain considerable recognition through press releases, shareware distribution, and participation on critical editorial product reviews and evaluations.

Public Relations

During 1998, KSI will continue to concentrate on proactive public relations, with an enlarged focus on sustaining KSI's established relationships with editors and software web sites. KSI plans to retain a public relations firm that specializes in working with start up companies. KSI's first PR projects are to build awareness of our company and successfully introduce our Scroll product to critical channels.

KSI uses Business Wire for press and news release distribution. As a result of KSI's press release on March 7, 1998 the following news services picked up KSI's release:

> CNN Custom News
> Yahoo Business Customized News
> PC WORLD Real Audio News
> Los Angeles Times

Financial Plan

Assumptions

KatieSoft's capital stock consists of 15,000,000 shares of common stock and 10,000,000 shares of preferred stock. Of the 15,000,000 common shares there are 6,350,378 outstanding, and there are no preferred shares outstanding. The following breakdown outlines KSI's current outstanding shares:

Brian Duperrouzel, CEO	3,062,500 (48.2%)
Angus Chassels, COO	2,044,000 (32.1%)
Solomon Wong, Acting CFO	100,756 (1.5%)
Non-Issued Pool for Employee Incentive	995,844 (15.6%)
Other Investors	147,278 (2.3%)
Total Outstanding	**6,350,378 (100%)**

KSI's current market valuation is $5,042,200 and price per share is valued at $0.794.

New Investment

In exchange for KSI's capital requirement of $400,000, KSI plans to issue 503,788 shares of common stock. The following breakdown outlines KSI's post investment capital structure:

Brian Duperrouzel, Chairman and CEO	3,062,500 (44.6%)
Angus Chassels, Secretary and COO	2,044,000 (29.8%)
Solomon Wong, Acting CFO	100,756 (1.4%)
Pool for Employee Incentive	995,844 (14.5%)
Other Investors	147,278 (2.1%)
New Investor	503,788 (7.3%)
Total Outstanding	**6,854,166 (100%)**

Post Investment Valuation	$5,442,200
Post Investment Value per Share	$0.794

Future Investments and Exit Strategy

KSI anticipates that by the end of the six month period, that this business plan contemplates, KSI's market valuation will be in the range of US $ 12,000,000, or $1.75 a share. At that time, KSI will elect to prepare itself for a public offering by seeking partnership with a highly respected venture capital firm. KSI's management also views acquisition as a viable exit strategy for its shareholders.

Current Financial Status

Current Balance Sheet
(As of 5/13/98)

Cash	$50,000
Equipment	$5,000
Software	$3,000
Total Assets	$58,000
Total Liabilities	$7,000
Shareholder Equity	$51,000

Current Income Statement
(For the 3 Month Period ending 4/31/98)

Revenue	$8,000
Expenses	$22,000
Net Income	($14,000)

KSI's main source of revenue has been generated from consulting services. KSI has no future plans to expand its consulting services.

In December 1997, KSI started selling its PiP software as shareware. This enabled KSI to capture revenue from users who wanted additional features and support. By releasing PiP as shareware, KSI was able to subsidize its R&D budget by allowing its non-paying user base to test software and suggest features. Since Scroll will fully disable itself after the evaluation period, KSI anticipates a greater percentage of users to purchase the software.

Use of Funds

Although KSI expects to reach profitability within the first three months of post investment operation, KSI's officers have created a six month plan to account for any timing variances associated with KSI's revenue streams. With a $60,000 cash burn per month, 4,000 units of Scroll priced at $15.00 would represent KSI's break-even point. If KSI can not achieve break-even revenues by the end of this six month time frame, future investment would be needed to continue operation.

The following numbers outline KSI's anticipated expenses over the six month period that this business plan contemplates:

Expenses

Administration	$	103,200	26%
Research and Development	$	72,000	18%
Public Relations	$	60,000	15%
Advertising	$	54,000	14%
Legal	$	30,000	8%
Trade Shows	$	20,000	5%
Office	$	18,000	5%
Equipment	$	12,000	3%
Connectivity to Internet	$	9,600	2%
Travel & Entertainment	$	9,000	2%
Telecom	$	6,000	2%
Furniture	$	5,000	1%
Utilities	$	1,200	0%
	$	-	
Total Expense	**$**	**400,000**	**100%**

Income Statement Projection
For One Year Ending July 30, 1999

<u>Revenue</u>

Retail Sales of Scroll (1)	$ 1,300,000 (13%)
Corporate Sales (2)	$ 2,500,000 (27%)
OEM Sales (3)	$ 3,000,000 (44%)
Advertising Sales (4)	$ 2,000,000 (22%)
Total Revenue	**$ 8,800,000**

<u>Expenses</u>

Research and Development	$1,430,000 (25%)
Selling, General and Administrative	$4,290,000 (75%)
Total Expense	**$5,720,000**
Net Income before Provision for Taxes	$3,080,000 (35%)
Net Income after Taxes	$2,156,000
Fully Diluted Income per Share	$0.31
Number of Shares used in Calculation	6,854,166
Market Capitalization (5)	$43,120,000
Market Value per Share	$6.29

(1) Assumes 82,000 copies of Scroll at $15.95.
(2) Assumes 500,000 corporate licenses sold at an average of $5.00 per license.
(3) Assumes 6,000,000 units at $0.50 a license.
(4) Assumes 10,000,000 page view deliveries at an average cost of $0.20 per view.
(5) Assumes a P/E ratio of 20.

The aforementioned revenue and expense projections assume a venture capital financing round of $3-$4 M that would occur between months 4-6.

Conclusion

KSI's most valuable assets are its developed products. At this time, capital is needed to bring Scroll to market, fortify KSI's infrastructure and management team, and to further leverage KSI's leading market position in the enhanced browser market.